

Name(s) as shown on return

Social security number or employer identification number

Part I Total Investment Interest Expense

| | | | |
|--|---|--|--|
| 1 Investment interest expense paid or accrued in 1996. See Instructions. | 1 | | |
| 2 Disallowed investment interest expense from 1995 Form N-158, line 7. | 2 | | |
| 3 Total investment interest expense. Add lines 1 and 2. | 3 | | |

Part II Net Investment Income

| | | | |
|---|----|--|--|
| 4a Gross income from property held for investment (excluding any net gain from the disposition of property held for investment) | 4a | | |
| b Net gain from the disposition of property held for investment | 4b | | |
| c Net capital gain from the disposition of property held for investment | 4c | | |
| d Line 4b minus line 4c. If zero or less, enter -0-. | 4d | | |
| e Enter all or part of the amount on line 4c that you elect to include in investment income. Do not enter more than the amount on line 4b. See Instructions ► | 4e | | |
| f Investment income. Add lines 4a, 4d, and 4e. See Instructions | 4f | | |
| 5 Investment expenses. See Instructions | 5 | | |
| 6 Net investment income. Line 4f minus line 5. If zero or less, enter -0-. | 6 | | |

Part III Investment Interest Expense Deduction

| | | | |
|--|---|--|--|
| 7 Disallowed investment interest expense to be carried forward to 1997. Line 3 minus line 6. If zero or less, enter -0-. | 7 | | |
| 8 Investment interest expense deduction. Enter the smaller of line 3 or line 6. See Instructions. | 8 | | |

General Instructions

Section reference are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Interest expense paid by an individual, estate, or a trust on a loan that is allocable to property held for investment (defined below), may not be fully deductible in the current year. Form N-158 is used to figure the amount of investment interest expense deductible for the current year and the amount, if any, to carry forward to future years.

For more information, get federal Publication 550, Investment Income and Expenses.

Who Must File

If you are an individual, estate, or a trust, and you claim a deduction for investment interest expense, you must complete and attach Form N-158 to your tax return, unless **all** of the following apply:

- Your only investment income was from interest, dividends,

- You have no other deductible expenses connected with the production of interest, dividends,
- Your investment interest expense is not more than your investment income, and
- You have no carryovers of investment interest expense from 1995.

Allocation of Interest Expense Under Temporary Regulations Section 1.163-8T

If you paid or accrued interest on a loan and you used the proceeds of the loan for more than one purpose, you may have to allocate the interest paid. This is necessary because of the different rules that apply to investment interest, personal interest, trade or business interest, home mortgage interest, and passive activity interest. See federal Publication 550.

Specific Instructions**Part I — Total Investment Interest Expense****Line 1**

Enter the investment interest paid or accrued during the tax year, regardless of when the indebtedness was incurred. Investment interest is interest paid or accrued on a loan (or part of a loan) that is allocable to property held for investment (as defined below).

Be sure to include investment interest expense reported to you on Schedule K-1 from a partnership, an S corporation, an estate, or a trust. Include amortization of bond premium on taxable bonds purchased after October 22, 1986, but before January 1, 1988, unless you elected to offset amortizable bond premium against the interest payments on the bond. A taxable bond is a bond on which the interest is includible in gross income.

Investment interest expense does not include the following:

- Home mortgage interest.
- Interest expense that is properly allocable to a passive activity. A passive activity is any business activity in which you **do not** materially participate and any rental activity regardless of participation. See the separate instructions for federal Form 8582, Passive Activity Loss Limitations, for the material participation tests and the definition of "rental activity".
- Any interest expense that is capitalized, such as construction interest subject to section 263A.
- Interest expense related to tax-exempt interest income under section 265.

Property Held for Investment. Property held for investment includes property that produces income (unless derived in the ordinary course of a trade or business) from interest, dividends, annuities, or royalties; and gains from the disposition of property that produces those types of income or is held for investment. However, it does not include an interest in a passive activity.

Property held for investment also includes an interest in an activity of conducting a trade or business in which you did not materially participate and that is not a passive activity. For example, a working interest in an oil or gas property that is not a passive activity is property held for investment if you did not materially participate in the activity.

Part II — Net Investment Income

Line 4a

Gross income from property held for investment to be entered on line 4a includes income (unless derived in the ordinary course of a trade or business) from:

- Interest,
- Dividends (except Alaska Permanent Fund dividends. See Rev. Rul. 90-56, 1990-28 I.R.B.6.),
- Annuities, and
- Royalties.

If you are filing Form N-814, Parents' Election To Report Child's Interest and Dividends, part or all of your child's income may be included on line 4a. See Form N-814 for details.

Also, include on line 4a net income from the following passive activities:

- Rental of substantially nondepreciable property,
- Equity-financed lending activities, and
- Acquisition of certain interests in a pass-through entity licensing intangible

property.

See Regulations section 1.469-2(f)(10) for details.

Net passive income from a passive activity of a publicly traded partnership (as defined in section 469(k)(2)) is also included in investment income. See Notice 88-75, 1988-2 C.B. 386, for details.

Include investment income reported to you on Schedule K-1 from a partnership or an S corporation. Also include net investment income from an estate, or a trust.

Do not include on line 4a any net gain from the disposition of property held for investment. Instead, enter this amount on line 4b.

Line 4b

Net gain from the disposition of property held for investment is the excess, if any, of total gains over total losses from the disposition of property held for investment. When figuring this amount, be sure to include capital gain distributions from mutual funds.

Line 4c

Net capital gain from the disposition of property held for investment is the excess, if any, of net long-term capital gain over net short-term capital loss from the disposition of property held for investment. When figuring this amount, be sure to include capital gain distributions from mutual funds.

Line 4e

Net capital gain from the disposition of property held for investment is excluded from investment income. However, you may elect to include in investment income all or part of the net capital gain from the disposition of property held for investment.

To make the election, enter on line 4e all or part of the amount on line 4c, but not more than the amount on line 4b, that you elect to include in investment income.

If you make an entry on line 4e and you are using an alternative tax on your capital gains (or Part VI of Schedule D (Form N-40)), you must also reduce the amount of net capital gain eligible for the 7.25% maximum capital gains rate by the amount on this line. Therefore, you should consider the effect on your tax using the maximum capital gains tax rate before making an entry on this line.

Line 5

Investment expenses are your allowed deductions, other than interest expense, directly connected with the production of investment income. For example, depreciation or depletion allowed on assets that produce investment income is an investment expense.

Investment expenses do not include any deductions taken into account in determining your income or loss from a passive activity.

If you have investment expenses that are included as a miscellaneous itemized deduction on line 22 of the Itemized Deductions Worksheet in the N-11/N-12 Instructions, you may not have to use all of the amount for purposes of Form N-158, line 5. The 2% adjusted gross income limitation on the Itemized Deductions Worksheet may reduce the amount.

You can figure this amount by comparing the amount of the investment expenses included on line 22 of the Itemized Deductions Worksheet with the total miscellaneous expenses on line 26 of the Itemized Deductions Worksheet. The smaller of the investment expenses included on line 22 or the total of line 26 is the amount to include as investment expense for line 5. For example, assume line 22 includes investment expenses of \$3,000, and line 26 is \$1,300 after the 2% adjusted gross income limitation. Investment expenses of \$1,300 are allowed for purposes of line 5. If investment expenses of \$800 were included on line 22 and line 26 was \$1,300, investment expenses of \$800 would be used.

If you have investment expenses reported on a form or schedule other than as computed on the Itemized Deductions Worksheet, include those expenses when figuring investment expenses for line 5.

Part III — Investment Interest Expense Deduction

Line 8

This is the amount you may deduct as investment interest expense.

Individuals. Enter the amount from line 8 on line 13 of the Itemized Deductions Worksheet in the N-11/N-12 Instructions, even if all or part of it is attributable to a partnership or an S corporation. However, if any portion of this amount is attributable to royalties, enter that portion of the interest expense on federal Schedule E.

Estates and Trusts. Enter the amount from line 8 on line 10 of Form N-40.

Federal Form 6198. If any portion of the deductible investment interest expense is attributable to an activity for which you are not at risk, you must also use federal Form 6198, At-Risk Limitations, to figure your deductible investment interest expense. Enter the portion attributable to the at-risk activity on line 4 of federal Form 6198. Reduce line 8 of Form N-158 by the amount entered on federal Form 6198. See federal Form 6198 and its instructions for more details, especially the instructions for line 4 of that form.